

**CHARITON MUNICIPAL WATERWORKS
CHARITON, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2004

**Peak & Gerdes, LLP
Certified Public Accountants
103 Benton Avenue East
Albia, Iowa 52531**

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CHARITON MUNICIPAL WATERWORKS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
George Holder	Chairman	December 31, 2009
Roger Bingham	Vice-Chairman	December 31, 2005
Byron Welch	Secretary	December 31, 2007
Brad Robbins*	Superintendent	Indefinite**
Ruth A. Ryun	Treasurer	Indefinite

* - Resigned in May, 2004

** - Position vacant at June 30, 2004.

Chariton Municipal Waterworks

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
103 BENTON AVENUE EAST
ALBIA, IOWA 52531

(641) 932-3295

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Chariton Municipal Waterworks

We have audited the accompanying financial statements of the business type activities and each major fund of the Chariton Municipal Waterworks, component unit of the City of Chariton, Chariton, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the Waterworks' basic financial statements listed in the table of contents. These financial statements are the responsibility of the Waterworks' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and each major fund of the Chariton Municipal Waterworks, component unit of the City of Chariton, Chariton, Iowa, at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principals.

As described in Note 9 to the financial statements, for the year ended June 30, 2004, the Chariton Municipal Waterworks adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated July 30, 2004, on our consideration of the Chariton Municipal Waterworks internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 10 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Chariton Municipal Waterworks' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedule 1, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

July 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Chariton Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Waterworks financial statements, which follow.

Because the Waterworks is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Waterworks financial position and results of operations.

The Waterworks is a component unit of the City of Chariton, Iowa.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the Waterworks business type activities decreased 2%, or approximately \$18,000, from fiscal 2003 to fiscal 2004.
- Expenses increased 1%, or approximately \$8,000, in fiscal 2004 from fiscal 2003.
- The Waterworks net assets decreased 3%, or approximately \$108,000, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Waterworks financial activities.

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Waterworks as a whole and present an overall view of the Waterworks finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Waterworks operations in more detail than the government-wide statements.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Waterworks budget for the year.

Other Supplementary Information provides detailed information about the Waterworks Funds.

REPORTING THE WATERWORKS FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the Waterworks finances is, "Is the Waterworks as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Waterworks assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the Waterworks is improving or deteriorating.

The Statement of Activities presents information showing how the Waterworks net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report the following kind of activity:

- Business type activities include the Waterworks. These activities are financed primarily by user charges.

Fund Financial Statements

Proprietary funds account for the Waterworks Enterprise Funds. These funds report services for which the Waterworks charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water Fund, considered to be a major fund of the Waterworks. The Waterworks is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for business type activities.

Net Assets
June 30, 2004

	<u>Business-Type Activities</u>
Current and other assets	\$ 465,653
Capital assets	<u>4,360,788</u>
Total assets	<u>4,826,441</u>
Long-term liabilities	1,045,000
Other liabilities	<u>263,516</u>
Total liabilities	<u>1,308,516</u>
Net assets:	
Invested in capital assets, net of related debt	2,684,761
Restricted	474,524
Unrestricted	<u>358,640</u>
Total net assets	<u><u>\$3,517,925</u></u>

Net assets of business type activities decreased from FY03 by approximately \$108,000, or 3.0%. The largest portion of the Waterworks net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$359,000 at the end of this year.

Changes in Net Assets
Year ended June 30, 2004

	<u>Business Type Activities</u>
Revenues:	
Program revenues:	
Charges for service	\$ 978,631
General revenues:	
Unrestricted investment earnings	5,744
Miscellaneous	<u>36,709</u>
Total revenues	<u>1,021,084</u>
Program expenses:	
Water	<u>1,128,616</u>
Total expenses	<u>1,128,616</u>
(Decrease) in net assets	(107,532)
Net assets beginning of year	<u>3,625,457</u>
Net assets end of year	<u><u>\$ 3,517,925</u></u>

INDIVIDUAL MAJOR FUND ANALYSIS

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the Waterworks, ended fiscal 2004 with a \$3,517,925 net asset balance compared to the prior year ending net asset balance of \$3,625,457.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Waterworks amended its budget one time. This amendment was needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, water distribution system and other infrastructure. Capital assets for business type activities totaled \$3,864,761 (net of accumulated depreciation) at June 30, 2004. See Note 4 to the financial statements for more information about the City's capital assets.

For business type activities, major additions included construction of a new drainage tube and new computers for the office.

Long-Term Debt

Total long-term debt outstanding for business type activities was \$1,273,276 at June 30, 2004. Additional information about the Waterworks long-term debt is presented in Note 5 to the financial statements.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

Several economic factors affected decisions made by the Waterworks in setting its fiscal 2005 budget, including water main replacements, upkeep of current mains and fees that will be charged. Total receipts and disbursements are budgeted at \$1,051,440 for fiscal 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Waterworks finances and operating activities. If you have any questions or require additional information please contact the Waterworks Superintendent, 101 Albia Road, Box 861, Chariton, Iowa.

Basic Financial Statements

CHARITON MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF NET ASSETS

June 30, 2004

	<u>Business Type Activities</u>
Assets	
Cash and pooled investments	\$ 273,314
Receivables, net of allowance for uncollectible amounts (\$10,283)	
Accounts, consumers and other	106,696
Estimated unbilled usage	38,777
Accrued interest	400
Inventories	28,814
Prepaid Insurance	17,652
 Restricted assets	
Cash and pooled investments	474,524
 Cost of bond issue (net of accumulated amortization)	21,503
 Capital assets (net of accumulated depreciation)	3,864,761
Total assets	<u>4,826,441</u>
 Liabilities	
Accounts payable	30,456
Accrued expenses payable	4,784
Long - term liabilities:	
Portion due or payable within one year:	
Revenue notes payable	135,000
Compensated absences	93,276
Portion due or payable after one year:	
Revenue notes payable	1,045,000
Total liabilities	<u>1,308,516</u>
 Net Assets	
Invested in capital assets, net of related debt	2,684,761
Restricted for:	
Meter deposits	83,269
Reserve	195,000
Revenue bond retirement	16,035
Funded replacement	180,220
Unrestricted	358,640
Total net assets	<u>\$ 3,517,925</u>

See notes to financial statements.

CHARITON MUNICIPAL WATERWORKS

STATEMENT OF ACTIVITIES

Year ended June 30, 2004

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Operating				
	Expenses	Charges for Service	Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Business Type Activities
Functions / Programs:					
Business type activities:					
Water	\$ 1,128,616	978,631	-	-	(149,985)
General Revenues:					
Unrestricted investment earnings					5,744
Miscellaneous					36,709
Total general revenues					42,453
Change in net assets					(107,532)
Net assets beginning of year					3,625,457
Net assets end of year					3,517,925

See notes to financial statements.

CHARITON MUNICIPAL WATERWORKS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

Exhibit C

Year ended June 30, 2004

Operating revenues:	
Charges for service:	
Water	\$ 978,631
Customer service and sale of materials	5,336
Total operating revenues	<u>983,967</u>
Operating expenses:	
Business type activities:	
Plant operation	231,010
Distribution operation	257,700
Accounting and collection	140,604
Administration	116,590
Repairs and minor equipment	28,496
Depreciation and amortization	<u>291,103</u>
Total operating expenses	<u>1,065,503</u>
Operating loss	<u>(81,536)</u>
Nonoperating revenues (expenses):	
Interest income	5,744
Interest expense	(63,113)
Miscellaneous	<u>31,373</u>
Total nonoperating revenues (expenses)	<u>(25,996)</u>
Change in net assets	(107,532)
Net assets, beginning of year	<u>3,625,457</u>
Net assets, end of year	<u>\$ 3,517,925</u>

See notes to financial statements.

CHARITON MUNICIPAL WATERWORKS

Exhibit D

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

Year ended June 30, 2004

Cash flows from operating activities:	
Cash received from customers and users	\$ 984,883
Cash received from other revenues	5,336
Cash paid for personal services	(311,357)
Cash paid to suppliers	(494,117)
Net cash provided by operating activities	<u>184,745</u>
Cash flows from noncapital financing activities:	
Miscellaneous income	<u>31,373</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(96,692)
Principal paid on revenue notes	(130,000)
Interest paid on revenue notes	(63,633)
Net cash used for capital and related financing activities	<u>(290,325)</u>
Cash flows from investing activities:	
Interest on investments	<u>6,265</u>
Net cash provided by investing activities	<u>6,265</u>
Net (decrease) in cash and cash equivalents	(67,942)
Cash and cash equivalents at beginning of year	<u>815,780</u>
Cash and cash equivalents at end of year	<u><u>\$ 747,838</u></u>

See notes to financial statements.

CHARITON MUNICIPAL WATERWORKS

Exhibit D

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year ended June 30, 2004

Reconciliation of operating income to net cash

provided by operating activities:

Operating loss	\$ (81,536)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	291,103
Decrease in receivables	6,252
(Increase) in inventories	(21,186)
(Increase) in prepaid insurance	(2,782)
(Decrease) in accounts payable and accrued expenses and compensated absences	(7,106)
Net cash provided by operating activities	\$ <u>184,745</u>

**Reconciliation of cash and cash equivalents at year end to
specific assets included on the Statement of Net Assets:**

Current assets:	
Cash and pooled investments	\$ 273,314
Restricted assets:	
Cash and pooled investments:	
Customer deposits	83,269
Reserve	195,000
Revenue bond retirement	16,035
Funded replacement	180,220
Cash and cash equivalents at year end	\$ <u>747,838</u>

See notes to financial statements.

CHARITON MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

The Chariton Municipal Waterworks is governed by a Board of Trustees appointed by the City Council of the City of Chariton, Iowa to operate and maintain the water utility for the City. The financial statements of the Chariton Municipal Waterworks have been prepared in conformity with U.S. generally accepted accounting principals (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

These financial statements present the Chariton Municipal Waterworks which is a component unit of the City of Chariton, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks has no component units.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the Waterworks. For the most part, the effect of interfund activity has been removed from these statements. The business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the Waterworks nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for the proprietary fund. The proprietary fund is reported in the fund financial statements.

The Waterworks reports the following major proprietary fund:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

Note1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

The proprietary funds of the Waterworks apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Waterworks Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Waterworks maintains its financial records on the cash basis. The financial statements of the Waterworks are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most Waterworks funds are pooled and invested.

For the purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Investments consist of non-negotiable certificates of deposit which are stated at cost.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Inventories - Inventories are valued at cost using the first-in / first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include meter deposits restricted for application to unpaid customer accounts or for refund to customers.

Note 1. Summary of Significant Accounting Policies (continued)

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the Waterworks as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land, buildings and improvements	\$1,000
Equipment and vehicles	1,000
Infrastructure	1,000

Capital assets of the Waterworks are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Improvements other than buildings	10-50 years
Vehicles	5 years
Equipment	5-10 years
Infrastructure	20-40 years

Compensated Absences – Waterworks employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business type activities column in the proprietary fund Statement of Net Assets.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Cash and Pooled Investments

The Waterworks deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Note 2. Cash and Pooled Investments (continued)

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Note 3. Bond Issue Costs

The costs relating to the issuing of the revenue bonds are being amortized over the term of the bonds.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 47,900	-	-	47,900
Total capital assets not being depreciated	47,900	-	-	47,900
Capital assets being depreciated:				
Improvements other than buildings	258,054	66,398	-	324,452
Equipment and vehicles	306,965	30,293	-	337,258
Infrastructure, water network	7,984,679	-	-	7,984,679
Total capital assets being depreciated	8,549,698	96,691	-	8,646,389
Less accumulated depreciation for:				
Improvements other than buildings	179,555	17,136	-	196,691
Equipment and vehicles	187,181	63,759	-	250,940
Infrastructure, water network	4,174,527	207,370	-	4,381,897
Total accumulated depreciation	4,541,263	288,265	-	4,829,528
Total capital assets being depreciated, net	4,008,435	(191,574)	-	3,816,861
Business type activities capital assets, net	\$ 4,056,335	(191,574)	-	3,864,761

Depreciation expense was charged to the business type activities – water fund.

Note 5. Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within one Year
Business type activities:					
Revenue notes	\$ 1,310,000	-	130,000	1,180,000	135,000
Compensated absences	105,939	-	12,663	93,276	93,276
Total	<u>\$ 1,415,939</u>	<u>-</u>	<u>142,663</u>	<u>1,273,276</u>	<u>228,276</u>

Revenue Bonds Payable

Annual debt service requirements to maturity for revenue bonds which were issued to finance water system improvements are as follows:

Year Ending June 30,	1992 Issue			1998 Issue			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2005	6.10%	\$ 40,000	\$ 11,382	4.35%	\$ 95,000	\$ 46,020	\$ 135,000	\$ 57,402
2006	6.25%	45,000	8,943	4.40%	95,000	41,888	140,000	50,831
2007	6.40%	45,000	6,130	4.45%	100,000	37,707	145,000	43,837
2008	6.50%	50,000	3,250	4.50%	105,000	33,258	155,000	36,508
2009				4.60%	110,000	28,533	110,000	28,533
2010				4.65%	115,000	23,473	115,000	23,473
2011				4.70%	120,000	18,125	120,000	18,125
2012				4.75%	125,000	12,485	125,000	12,485
2013				4.85%	135,000	6,547	135,000	6,547
Total		<u>180,000</u>	<u>\$ 29,705</u>		<u>1,000,000</u>	<u>\$ 248,036</u>	<u>1,180,000</u>	<u>\$ 277,741</u>
Less current portion		<u>40,000</u>			<u>95,000</u>		<u>135,000</u>	
		<u>\$ 140,000</u>			<u>\$ 905,000</u>		<u>\$ 1,045,000</u>	

The resolution providing for the issuance of the 1992 revenue bonds include the following provisions:

- (A) The bonds will only be redeemed from the future earnings of the Waterworks and the bondholders hold a lien on the future earnings.
- (B) \$45,000 will be set aside in a "Reserve Fund".
- (C) A sum of 1/6 of the interest coming due on the next succeeding interest payment date plus 1/12 of the next succeeding principal payment date shall be paid into a "Sinking Fund".
- (D) \$850 per month will be deposited to an "Improvement and Extension Fund" until a sum of \$50,000 is accumulated.

Note 5. Changes in Long-Term Liabilities (continued)

The resolution providing for the issuance of the 1998 revenue bonds include the following provisions:

- (A) The bonds will only be redeemed from the future earnings of the Waterworks and the bondholders hold a lien on the future earnings.
- (B) \$140,000 will be set aside in a "Reserve Fund".
- (C) A sum of 1/6 of the interest coming due on the next succeeding interest payment date plus 1/12 of the next succeeding principal payment date shall be paid into a "Sinking Fund".

Note 6. Interest Cost

It is the Waterworks policy to capitalize interest cost on construction in progress to the extent such construction is capitalized on the balance sheet. For the year ended June 30, 2004 the Waterworks incurred total interest cost of \$63,113 and no interest costs were capitalized.

Note 7. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Waterworks is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Waterworks contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$17,700, \$16,741 and \$14,974 respectively, equal to the required contributions for each year.

Note 8. Risk Management

The Chariton Municipal Waterworks is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Accounting Change

Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the Waterworks activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type.

Required Supplementary Information

CHARITON MUNICIPAL WATERWORKS

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) -
PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2004

	Proprietary Funds Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 6,265	6,200	6,200	65
Charge for service	984,883	1,071,350	1,071,350	(86,467)
Miscellaneous	36,709	31,700	31,700	5,009
Total receipts	1,027,857	1,109,250	1,109,250	(81,393)
Disbursements:				
Business type activities	1,095,799	1,109,250	1,124,250	28,451
Total disbursements	1,095,799	1,109,250	1,124,250	28,451
Excess (deficiency) of receipts over (under) disbursements	(67,942)	-	(15,000)	(52,942)
Other financing sources, net	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(67,942)	-	(15,000)	(52,942)
Balances beginning of year	815,780	-	-	815,780
Balances end of year	\$ 747,838	-	(15,000)	762,838

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2004

	Proprietary Funds		
	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 1,027,857	(6,773)	1,021,084
Expenses	1,095,799	32,817	1,128,616
Net	(67,942)	(39,590)	(107,532)
Other financing sources, net	-	-	-
Beginning net assets	815,780	2,809,677	3,625,457
Ending net assets	\$ 747,838	2,770,087	3,517,925

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

Year ended June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Project Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year the budget amendment increased budgeted disbursements by \$15,000. This budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

CHARITON MUNICIPAL WATERWORKS

Schedule 1

SCHEDULE OF OPERATING EXPENSES

Year Ended June 30, 2004

Plant Operation	
Salaries	\$ 102,222
Power and propane	33,439
Chemicals	88,530
Supplies	4,632
Telephone	1,031
Maintenance materials and labor	661
Other expenses	495
Total plant operation	<u>\$ 231,010</u>
Distribution Operation	
Salaries	\$ 128,140
Vehicle maintenance	10,474
Insurance	28,719
Supplies	5,718
Utilities	5,821
Telephone	1,855
Maintenance material and labor	75,704
Other expenses	1,269
Total distribution operation	<u>\$ 257,700</u>
Accounting and Collection	
Salaries	\$ 69,829
Meter reading	8,925
Office supplies	3,003
Sales tax	42,139
Postage	8,332
Telephone	2,142
Utilities	4,040
Other expenses	2,194
Total accounting and collection	<u>\$ 140,604</u>
Administration	
Employee benefits	\$ 96,297
Legal and engineering	4,180
Bad debt	746
Audit and filing fee	1,965
Safety, schools, miscellaneous	12,396
Building expense	1,006
Total administration	<u>\$ 116,590</u>
Repairs and Minor Equipment	
Plant improvements	\$ 4,942
Office equipment	2,005
Distribution improvements	21,549
Total repairs and minor equipment	<u>\$ 28,496</u>
Depreciation and Amortization	
Depreciation	\$ 288,265
Amortization	2,838
Total depreciation and amortization	<u>\$ 291,103</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
103 BENTON AVENUE EAST
ALBIA, IOWA 52531

(641) 932-3295

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees
Chariton Municipal Waterworks

We have audited the financial statements of the Chariton Municipal Waterworks, component unit of the City of Chariton, Chariton, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated July 30, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Chariton Municipal Waterworks financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Chariton Municipal Waterworks operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Chariton Municipal Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items II-J-04, II-K-04 and II-L-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Chariton Municipal Waterworks internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the Chariton Municipal Waterworks and other parties to whom the Chariton Municipal Waterworks may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Chariton Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

July 30, 2004

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS
Year ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements

INSTANCES OF NONCOMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

No matters were reported.

Part II: Other Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming official depositories has been approved by the Waterworks. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - Waterworks disbursements during the year ended June 30, 2004, did not exceed the amounts budgeted.
- II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- II-E-04 Business Transactions - No business transactions between the Waterworks and Waterworks officials or employees were noted.
- II-F-04 Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board of Trustee Minutes - No transactions were found that we believe should have been approved in the trustee minutes but were not.
- II-H-04 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Waterworks investment policy.
- II-I-04 Revenue Bonds - The Waterworks has complied with the provisions of the revenue bond indentures.
- II-J-04 Water Rates - The water rates charged to customers is established by board resolution. For multiple user customers, the Waterworks is billing the customers at an amount which is different than the rate established pursuant to the board resolution.

Recommendation - The Waterworks charge its customers in accordance with the rates as documented in the board resolution.

Response - We will review this area.

Conclusion - Response accepted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2004

II-K-04 Penalty - The Waterworks collects water, sewer, and sales tax income. For delinquent bills, the Waterworks charges a 10% penalty on the entire bill. There does not appear to be a written policy regarding the charging of this penalty.

Recommendation - The Waterworks develop a written policy which documents the penalty provisions, and who should receive the penalty amounts collected.

Response - We will consult with our attorney regarding these issues.

Conclusion - Response accepted.

II-L-04 Revenue Bonds - The average interest rate on the remaining portion of the 1992 bond issue is in excess of 6%. The bond agreements allow the Waterworks to refinance these bonds. Revenue bonds issued by other city utilities this past year have been issued at rates between 1%-3%. If the Waterworks would have refinanced the bonds this past year, they could have saved a significant amount of interest over the term of the 1992 bond issue.

Recommendation - The Waterworks analyze all aspects of its operation, including financing decisions, to ensure the business decisions made are prudent and efficient.

Response - We will continually review the financing decisions to ensure the decisions made are prudent and efficient.

Conclusion - Response accepted.

II-M-04 Authorized Signatory - The bank records show a former employee as an authorized signatory on a bank account.

Recommendation - The Waterworks remove the former employee from the signature card at the bank.

Response - We will implement this recommendation.

Conclusion - Response accepted.

II-N-04 Accounts Receivable - In addition to providing water service, the Waterworks also sells material or services to local residents. Our review noted that there are a few accounts which have not been paid, even though the materials or services were provided several months ago. In addition, for delinquent water service accounts, the Waterworks does not turn over the account to the County Treasurer for collection.

Recommendation - The Waterworks implement procedures to ensure delinquent accounts are collected, including turning over delinquent accounts to the County Treasurer for collection.

Response - We will review this area.

Conclusion - Response accepted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2004

II-O-04 Public Improvements – Chapters 384.96, 384.102 and 362.3 of the Code of Iowa states that for a public improvement which cost in excess of \$25,000, publishing a notice of requesting sealed bids, bid letting, and a public hearing on the contract is required. We noted that for one construction project which cost in excess of \$25,000, the Waterworks did not follow the Code Sections as noted above.

Recommendation – In the future, the City implement procedures to ensure the Code Sections as noted above are followed in regards to public improvements.

Response – We will implement this recommendation.

Conclusion – Response accepted.